STANFORD
GRADUATE SCHOOL OF BUSINESS
STANFORD SOCIAL INNOVATION review

Upfront

Pyrrhic Fundraising: Nonprofits pay dearly for their donations

By Rosaline Juan

Stanford Social Innovation Review
Summer 2007

STANFORD
GRADUATE SCHOOL OF BUSINESS
Stanford Social Innovation Review
518 Memorial Way, Stanford, CA 94305-5015
Ph: 650-725-5399. Fax: 650-723-0516
Email: info@ssireview.com, **www.ssireview.com**

upfront

Pyrrhic Fundraising

Nonprofits pay dearly for their donations

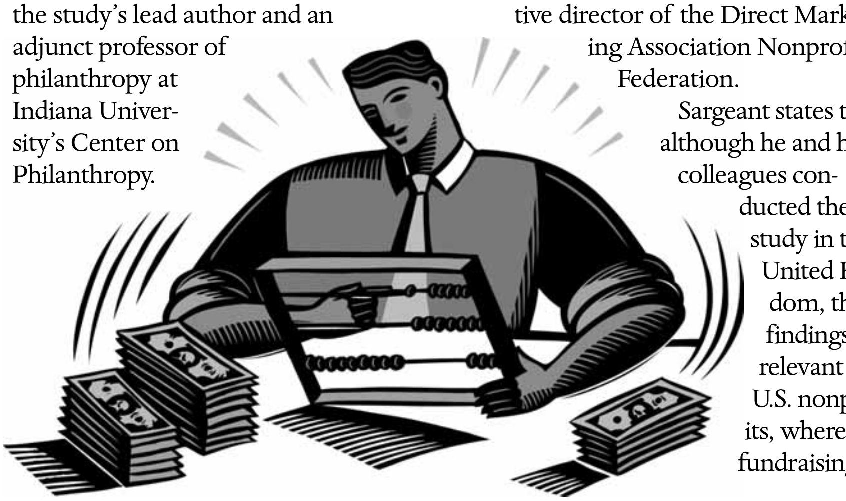
It takes money to make money, the saying goes. But nonprofits actually lose money – at least in the short term – when they try to raise funds through direct marketing, find the co-authors of a recent paper in the *Journal of Nonprofit & Public Sector Marketing* (vol. 16, no. 1/2). The researchers show that over a one-year period, U.K. nonprofits earned just 39 cents in donations for each $1 they spent on direct mail. Altogether, fundraising through direct marketing, which includes direct mail, television and print advertisements, and face-to-face solicitation, generated just 44 cents for every $1 invested.

"It's extraordinarily expensive to raise money," says Mal Warwick, head of a U.S.-based nonprofit direct marketing consulting firm. He says he has seen nonprofits spend as much as $300 per new donor through direct marketing. Organizations slowly, if ever, recoup that initial loss.

How much bang nonprofits get for their direct marketing buck has been a mystery, says Adrian Sargeant, the study's lead author and an adjunct professor of philanthropy at Indiana University's Center on Philanthropy. That's why he and his co-authors Elaine Jay, a U.K.-based fundraising consultant, and Stephen Lee, the director of the Centre for Voluntary Sector Management at Henley Management College (U.K.), set out to establish baseline measures of nonprofits' return on their direct marketing investments. They surveyed 150 of the largest U.K. charities, which together produce 74 percent of the country's nonprofit direct marketing. Using questionnaires, they asked respondents to report how much each organization's direct marketing efforts cost, as well as how much revenue each effort earned.

"Our research provides broad, benchmarking data that people can use to see how different [fundraising techniques] perform," says Sargeant. "They can also see if there are big gaps between their organization and our data. If there's big variation, they can ask, 'Why are we different?'"

"I think it's useful to see what the trends are, to see what large charities are doing," says Senny Boone, executive director of the Direct Marketing Association Nonprofit Federation.



Sargeant states that although he and his colleagues conducted their study in the United Kingdom, their findings are relevant to U.S. nonprofits, where fundraising techniques have "remarkably similar" performance. Nevertheless, Sargeant is currently working on analogous studies in the United States.

The authors warn that because the study had a short time horizon – one year – it may underestimate the long-term returns of direct marketing. As Warwick points out, "The nonprofits that spend $300 to acquire new donors [do so] not because they're stupid, but because they can get repeat income from those people." He continues, "The reason my clients and I do direct mail is to build a base of reliable, loyal, and generous donors, some of whom will upgrade over the years and become truly major donors."

Moreover, the authors advise that the study's data may be more useful to larger, older nonprofits than to smaller, newer ones, because they focused only on larger organizations. A newly formed nonprofit, for example, may need to spend a lot more during its first few years of direct marketing to get new supporters than does a larger, more established nonprofit.

Although direct marketing can be expensive, "not everyone can go for a major gift-type approach," says Boone. These more cost-efficient fundraising alternatives can generate $10 for every $1 invested. But less-established nonprofits may have a harder time getting major gifts, trusts, and corporate donations because they haven't had time to cultivate them. According to Warwick, the majority of the major donors he sees initially give only $25, $50, or $100 in response to a direct mailing. Over the years, however, these small-time givers upgrade their support.

Sargeant discusses these findings on www.charityfacts.org.

–Rosaline Juan

ILLUSTRATION BY STEPHANIE CARTER/ARTVILLE